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Message Text

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PAGE 01 BOGOTA 05014 081636Z

47
ACTION TRSE-00

INFO OCT-01 ARA-16 ISO-00 AID-20 CIAE-00 COME-00 EB-11

FRB-02 INR-10 NSAE-00 RSC-01 XMB-07 OPIC-12 SP-03

CIEP-02 LAB-06 SIL-01 OMB-01 NSC-07 SS-20 STR-08

CEA-02 L-03 DRC-01 /134 W
---------- 087081
R 072157Z JUN 74
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC 3141
INFO AMCONSUL MEDELLIN
AMCONSUL CALI

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E O 11652 NA
TAGS ETRD, CO

SUBJ: DEVALUATION, THE CAT AND COUNTERVAILING DUTY ON CUT FLOWERS

1. RODRIGO BOTERO, RUMORED TO BE PRES-ELECT LOPEZ'S CHOICE
FOR FINMIN, PUBLICLY RELEASED A STUDY HE DIRECTED WHICH ARGUES
FOR AN ACCELERATION IN THE RATE OF DEVALUATION OF THE PESO.
THE STUDY POINTS OUT THAT IN 1973 INTERNAL PRICES INCREASED BY
25 PERCENT WHICH FAR EXCEEDED THE COMBINED DEVALUATION OF THE PESO
(8.7 PERCENT) PLUS THE INCREASE IN WORLD PRICES (AS MEASURED BY
PRICE INCREASES IN THE U S OF 7.8 PERCENT). BOTERO PROPOSES
THE INCREASE IN THE RATE OF DEVALUATION TO: (A) PREVENT THE ILLEGAL
ENTRY OF FOREIGN EXCHANGE WHICH COMES TO COLOMBIA TO TAKE ADVANTAGE
OF THE RELATIVE HIGH NOMINAL INTEREST RATES OFFERED HERE, (B)
STIMULATE EXPORTS WITHOUT RECOURSE TO GOVT SUBSIDIES, AND (C)
EXERCISE BETTER CONTROL ON IMPORTS THROUGH THE MARKET MECHANISM.

2. THE BOTERO STUDY RECOMMENDS THE GRADUAL REDUCTION IN THE CAT
AS THE RATE OF DEPRECIATION OF THE PESO IS STEPPED UP. IN THIS
WAY THE COLOMBIAN EXPORTER WILL CONTINUE TO RECEIVE THE SAME
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EFFECTIVEPESO VALUE FOR HIS SALES ABROAD. CAT REDEMPTIONS IN

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

73 WERE ESTIMATED AT 1.4 BILLION PESOS OR APPROX 7 PERCENT OF
CURRENT REVENUES. SOME ESTIMATE THAT CAT REDEMPTIONS COULD GROW
BY AS MUCH AS 300 TO 600 MILLION PESOS IN 74. PRELIMINARY INDICATIONS
ARE THAT PRESIDENT-ELECT LOPEZ IS LIKELY TO FAVOR ACTION TO
PROGRESSIVELY ABOLISH THE CAT.

3. BEGIN COMMENT. THE PRELIMINARY SIGNALS FROM THE GOVT-ELECT
IS THAT THEY ARE LIKELY TO PHASE-OUT THE CAT INCENTIVES PRESENTLY
OFFERED TO MOST NON TRADITIONAL EXPORTERS. THEREFORE GIVEN SUFFICIENT
TIME TO WORK ON THE PROBLEM, THERE IS A CHANCE THAT OUR PRESENT
COUNTERVAILING DUTY INVESTIGATION ON CUT FLOWER IMPORTS FROM COLOMBIA
COULD BECOME A NON-ISSUE. END COMMENT. VAKY

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